LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7488 | **NOTE PREPARED:** Jan 11, 2009
BILL NUMBER: SB 470 | **BILL AMENDED:**

SUBJECT: Automatic Taxpayer Refund.

FIRST AUTHOR: Sen. Hershman | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides for the return of a part of the state's year-end general revenue surplus to Indiana residents in the form of a refundable Adjusted Gross Income Tax credit. The bill establishes the Income Tax Reduction Reserve and procedures to implement the credit program. The bill makes an appropriation.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Funding for Tax Credit to Refund Surplus Revenue:* The bill establishes the Income Tax Reduction Reserve Fund to pay for tax credits given to resident taxpayers in a fiscal year that the state revenue surplus exceeds limits specified by the bill. The Fund is nonreverting and is administered by the State Budget Agency. The bill requires the Auditor of State to make a transfer to the Fund if the general revenue fund balances at the end of the preceding fiscal year are greater than 10% of the general revenue appropriations for the current fiscal year. The transfer must be made by July 31st of the fiscal year.

If the bill was in effect in FY 2008 no transfer would have been made to the Reserve Fund. The FY 2007 net balance after payment of payment delay liabilities was $1,000.2 M. Budgeted appropriations for FY 2008 were $13,001.9 M, thus the FY 2007 balance did not exceed 10% of the FY 2008 budgeted appropriations. In contrast, a transfer of $39.3 M would have been made to the Reserve Fund in FY 2009 if the bill had been in effect. The FY 2008 net balance was $1,382.0 M and the FY 2009 budgeted appropriations total $13,427.1 M. As a result, the excess surplus above the 10% threshold totals $39.3 M in FY 2009. This amount would be refunded to resident taxpayers via an income tax credit against tax year 2008 Individual Adjusted Gross Income Tax liabilities (see *Explanation of State Revenues* for description of tax credit).

Department of State Revenue (DOR): The bill requires the DOR to annually estimate the number of resident taxpayers eligible to receive the tax credit to refund surplus revenue and to calculate the credit amount to which each resident taxpayer is entitled. In addition, the DOR will have to revise tax forms, instructions, and computer programs to implement this new tax credit. The DOR estimates that these costs could potentially range from $50,000 to $100,000. The additional cost of sending out refund checks relating to this credit is unknown. This cost could be mitigated to the extent that:

(1) the tax credit would be taken against tax liability by taxpayers and not result in refund checks being mailed;
(2) refunds resulting from the tax credit would be in addition to refund amounts taxpayers were already going to receive, so additional refund checks would not have to be mailed; or
(3) refunds resulting from the tax credit could be provided to taxpayers by direct deposit.

Definitions: "General revenue funds" are the Counter-Cyclical Revenue and Economic Stabilization Fund; the state General Fund including the Medicaid Contingency and Reserve Account; and the State Tuition Reserve Fund.

"Year-end general revenue balances" is the sum of the unencumbered balances in the general revenue funds at the end of a state fiscal year, after the application of all adjustments related to the close of a state fiscal year.

"General revenue appropriations" are the sum of the specific amounts appropriated by a biennial budget bill from any general revenue fund for expenditure in a particular state fiscal year, excluding transfers between general revenue funds and transfers to the Income Tax Reduction Reserve Fund.

Explanation of State Revenues: *Tax Credit to Refund Surplus Revenue:* The bill provides a refundable Individual Adjusted Gross Income Tax credit to resident taxpayers when general revenue fund balances at the end of one fiscal year are greater than 10% of the general revenue appropriations for the following fiscal year. The tax credit would be given to resident taxpayers in the tax year ending during the fiscal year in which the 10% threshold is exceeded, with each receiving an equal per capita share of the excess. (See *Explanation of State Expenditures* for definitions of general revenue fund balances and general revenue fund appropriations.) While the tax credit is effective beginning in tax year 2009, the magnitude of the credit in any tax year depends on the magnitude of general revenue balances and appropriations.

An individual taxpayer residing in an Indiana county on January 1st of the tax year is entitled to the tax credit, if credits are given in that tax year. The bill provides that the tax credit is refundable and prohibits the tax credit from being carried back or carried forward by a taxpayer.

If the bill had been in effect in tax year 2007, no tax credits would have been awarded. However, if the bill was in effect for tax year 2008, it is estimated that a total of $39.3 M in credits would given to approximately 4.1 million resident taxpayers. The credit amount would equal $9.50 per resident taxpayer.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency; Auditor of State; DOR.

Local Agencies Affected:

Information Sources: State Budget Agency, *Fiscal Year 2007-2008 Close-Out Statement* (July 18, 2008). Chris Atkins, Office of Management and Budget, (317) 234-2115; Tom Conley, DOR, (317) 232-2107.

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